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**SOAH DOCKET NO. 473-21-0538**  
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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION**  
**STAFF'S NINTH REQUEST FOR INFORMATION**

**Question No. STAFF 9-21:**

Refer to the Commission's Order on Rehearing in Docket No. 46449. Please provide the amount of the NOL accumulated deferred income tax asset actually recorded on SWEPCO's books at the end of the test year in that proceeding and the amount of the SWEPCO stand-alone NOL accumulated deferred income tax asset at the same date. Please also provide the amount of the NOL accumulated deferred income tax asset that was reflected in the rate base used to set rates approved in that order. If the amount was any other amount than the actual test-year and book amount, please identify the evidence (testimony, etc.) presented in that proceeding for the use of a different amount.

**Response No. STAFF 9-21:**

SWEPCO's books at the end of the test year in Docket No. 46449 reflected a NOL accumulated deferred income tax asset of zero as a result of the Company's participation in the AEP Inc. consolidated tax sharing agreement. No adjustments were made in that proceeding to reflect the level of NOL deferred tax asset for the Company on separate return basis.

During the preparation for this filing, the Company identified risks associated with using the GAAP balance of ADFIT for ratemaking purposes. These risks are twofold. First, in instances, such as this, in which a member of a consolidated group is in an NOL position determined on a separate return basis and the NOL is the result of accelerated tax depreciation, it is inconsistent with the separate return methodology used for purposes of computing tax expense to disregard such separate return NOL in the rate base component of the company's revenue requirement. Second, there is an operational economic risk with the rate regulation associated with including a consolidated return adjustment into the rates of utility companies.

Moreover, including federal NOL carryforward ADFIT in rate base when that NOLC is generated as a result of accelerated depreciation is consistent with the normalization rules of the Code. Since SWEPCO has a separate return federal NOL carryforward resulting from accelerated depreciation at the end of the test year in this case, it is consistent with the normalization requirement for rate base to reflect the deferred tax liabilities netted with the NOL deferred tax asset.

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